

DATA RESPONSE

- 1 Two countries, AUS and PNG, make two goods, wool and coffee. The production of the two goods in the two countries when they employ half their resources in the production of each product is as follows:-

	<u>Wool (tonnes)</u>	<u>Coffee (tonnes)</u>
AUS	100	25
PNG	50	50

- In which product does AUS have a comparative advantage?
- In which product in PNG relatively more efficient?
- If the countries specialise according to the theory of comparative advantage, and there are constant returns to scale, what will happen?

—————

- 2 Two countries, US and WG, produce steel and computers. The production of the two goods, if each country uses half its resources on each, is as follows:-

	<u>Steel (tonnes)</u>	<u>Computers (units)</u>
WG	80	40
US	40	50

- If each country specialises in that product for which it has a comparative advantage, what will the new pattern of production become?
- If the exchange rate is fixed at 4 tonnes of steel for 5 computers, and WG exports 40 tonnes of steel to US, how much of each product will each country have?
- At this rate of exchange, which country has received all the gains from trade?

—————

- 3 Two countries, IND and CAN, produce telephones and teapots. The production that is possible in these countries if they split their resources evenly between the two products is as follows:

	<u>Teapots</u>	<u>Telephones</u>
IND	40	20
CAN	80	60

- In which product does IND have an absolute advantage?
- In which product does IND have a comparative advantage?
- Can you show the potential gains to total production from partial specialisation by CAN?